

**Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, DC 20554**

In the Matter of

Rural Health Care Support Mechanism

Public Notice DA19-92

WC Docket No. 02-60

In the Matter of

Promoting Telehealth and
Telemedicine in Rural America

WC Docket No. 17-130

To the Wireline Competition Bureau:

PETITION FOR RECONSIDERATION

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March 18, 2019

EXECUTIVE SUMMARY

GCI Communication Corp. (“GCI”) hereby seeks reconsideration of a Public Notice released by the Wireline Competition Bureau on February 15, 2019 that purports to provide guidance regarding the Commission’s rules for determining rural rates in the Rural Health Care Telecommunications Program (“RHC Program” or “Program”). That “guidance” fails to provide enough information to allow a healthcare provider (“HCP”) or service provider to determine permissible rates, but does (as has already happened in Alaska) often bar program participants from relying on the best evidence of such rates—the market rates for their services. That will force service providers to conduct time-consuming and unreliable cost studies, which will in turn decrease carrier participation and thus increase RHC Program costs.

The Public Notice’s guidance entirely disregards detailed, on-the-record objections to which the Commission is legally obligated to respond and which show the guidance to be irrational and counterproductive, ignoring relevant evidence of market-based prices:

- The Public Notice finds that “comparable” rates charged to non-HCP customers are *only* those reflecting the entire charge for the same service configuration, “end-to-end.” But there is no logical reason why market comparables for components cannot demonstrate a reasonable, market-based rate for the entire circuit, absent direct end-to-end comparables.
- The Public Notice exacerbates this problem by requiring that Methods 1 (comparable rates) and 2 (publicly available rates) for determining rates under Section 54.607 “must be applied sequentially”—but, again, there is no logical reason to reject pairing market comparables for one component of a circuit with publicly available rates for other circuit components, and that reading is not compelled by the rule’s text.
- The Public Notice also requires calculating rates “regardless of any term or volume discounts” reflected by comparables, and also regardless of the technology used to provide the service and network configurations. But the Commission has recognized that volume and term pricing is reasonable and leads to lower prices, and technology can affect the underlying cost structure, and thus price, for a particular service.

The Public Notice’s failure to respond to the objections raised by parties on these issues, as well as its illogical and economically unsupportable conclusions, renders it arbitrary and capricious.

The Public Notice also fails to address issues critical to the application of Section 54.607 to determine comparable or publicly available rates. In particular, GCI has argued that a per-Mbps comparison is the only logical way to apply Section 54.607 consistent with the basic policies of the RHC Program—but was told by Bureau staff that rates must be compared using an average of the total circuit price notwithstanding differences in purchased capacity, even within Commission-specified safe-harbor ranges. Why would it be rational to compare rates within safe harbors in a way that permits above-market rates for five T-1 circuits, but limits an 8 Mbps Ethernet circuit to the same level as a single T-1? Yet that is how the Bureau applied its rules to GCI. The Public Notice ignores this issue entirely.

By forcing providers to rely on cost studies to determine rural rates, the Commission will reduce competition to provide these services to rural healthcare providers. Cost studies are costly to undertake, time-consuming, unlikely to yield approved rates prior to competitive bidding especially due to potential variation in demand as a result of competitive bids, and subject to extreme regulatory uncertainty as to the results. That regulatory uncertainty is compounded by the fact that the Public Notice lacks any guidance as to several critical specifications necessary to completing a cost study:

- The Public Notice does not address what costs would be considered permissible or impermissible.
- The Public Notice lacks any specifications or limitations as to cost allocation methodology—for example, while staff has insisted on non-revenue based allocation methodologies, that is not reflected in the Public Notice.
- The Public Notice lacks any discussion of the permissible rate of return, or even of the general factors to be considered in arriving at that rate.

Without these specifications, which would require a rulemaking, no service provider forced to pursue a cost study would be able to compute its permissible rural rates.

To the extent that the Public Notice *does* offer guidance regarding cost study requirements, that guidance is economically and statutorily indefensible:

- The Public Notice indicates that a service provider must allocate common costs to specific RHC customers, rather than all customers of the same service.
- To the extent the Bureau is requiring a “fully distributed costs” allocation methodology that has been rejected by economists as having no basis in economic reality for a competitive market.
- The Bureau’s increased reliance on cost studies directly contradicts the full Commission’s increasing reliance on market-based rates rather than cost-based regulation.

Finally, the Public Notice must be reconsidered because it purports to decide novel questions of law and policy beyond the scope of the Bureau’s delegated authority and thus amenable to determination only by the full Commission. Left unaltered, it will be vulnerable on judicial review not only because the Bureau overstepped its delegated authority by ruling on novel issues, but also because it 1) fails to advance any reasoned explanation for key aspects of its interpretations; and 2) fails to respond to (or even acknowledge) commenters’ detailed, on-the-record substantive objections to elements of the Bureau’s approach.

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INTRODUCTION

GCI Communication Corp. (“GCI”) hereby seeks reconsideration of a Public Notice released by the Wireline Competition Bureau on February 15, 2019 that purports to provide guidance regarding the Commission’s rules for determining rural rates in the Rural Health Care Telecommunications Program (“RHC Program” or “Program”).¹

The Public Notice simply does not contain sufficient information for an HCP or service provider to arrive at permissible rates under any methodology. And while the guidance that the Public Notice does provide will make it difficult or impossible to justify rates by any method other than costly and error-prone cost studies, it fails to address critical aspects of how such studies should be conducted. The Public Notice is also silent on other important aspects of how to apply 47 C.F.R. § 54.607, including issues embedded in its earlier determinations regarding GCI—but which the Public Notice fails to address or even identify for the benefit of the broader community of participants in the RHC Program. If the Bureau and USAC are to continue to apply these interpretations, they need to be publicly announced so that HCPs and service providers know how to compute permissible FY2019 rates. Moreover, all of these interpretations—both those included in the Public Notice and those omitted—are new and novel, with significant implications for the RHC Program. Taken together, they will decrease carrier participation and thus HCP choice, and increase costs to the USF. As such, they should have been considered and issued by the full Commission, not the Bureau.

¹ See *The Wireline Competition Bureau Provides Guidance Regarding the Commission’s Rules for Determining Rural Rates in the Rural Health Care Telecommunications Program*, Public Notice, DA No. 19-92, WC Docket No. 02-60 (rel. Feb. 15, 2019) (“Public Notice”).

As has already occurred in Alaska, the Public Notice’s guidance regarding rural rates under 47 C.F.R. § 54.607 will force service providers to ignore the *best evidence of permissible rates*—the market rates for their services—because of the narrow view of comparable rates that it adopts. As a practical matter, service providers that serve HCPs will have to turn to cost studies, which are time-consuming, expensive, unpredictable, and more subject to regulatory error than competitive market rates. That, in turn, risks driving participants to leave the program altogether, or at least to adopt inefficient mechanisms for avoiding cost studies.

Two related aspects of the Public Notice contribute to this problem. First, it should be indisputable—and in fact is built into the structure of Section 54.607—that it is preferable to rely on market evidence of appropriate rates than on rates regulators construct utilizing cost studies. However, the Bureau’s end-to-end requirement—that “comparable” rates charged to non-HCP customers are only those reflecting “the entire cost or charge” of the same service configuration, “end-to-end,” and cannot be justified by examining comparable charges for “elements of a service”²—excludes consideration of reliable evidence of market-based rates. There is no logical reason why the reasonable rates for each component of a circuit will not yield a reasonable end-to-end rate, particularly in the absence of a direct end-to-end comparison. Accordingly, notwithstanding the existence of market-based comparable rates for each component, the Public Notice will force providers to establish rates through a cost study.³ The Public Notice further exacerbates this problem by requiring that Methods 1 (comparable rates) and 2 (publicly available rates) for determining rates under Section 54.607 “must be applied sequentially”⁴—but

² *Id.* at 3-4.

³ The same issues can make it difficult to determine comparable urban rates, where components from different providers may also be assembled into an end-to-end circuit.

⁴ *Id.* at 3.

this fails to recognize that, for example, a middle-mile service provider may often simply buy and resell channel terminations under a publicly available tariff. Requiring “sequential” application of Methods 1 and 2 prevents that provider from using its comparable market-based sales for the transport, while using tariffed prices for the channel termination. Again, that will force the provider to undertake a burdensome, unpredictable, and error-prone cost study.

The Public Notice also requires that rates must be calculated “regardless of any term or volume discounts” reflected by comparables, thereby forcing carriers to absorb the burden of customers that purchase lower-capacity services for shorter terms.⁵ This treats purchasers that are not similarly situated as if they were, which is not consistent with the statute or rule. This will discourage carriers from offering volume and term discounts at all, thereby increasing the prices supported by the Program.

In addition to the flaws in the guidance that the Public Notice offers regarding the determination of comparable or publicly available rates under Section 54.607, the Public Notice fails to even acknowledge other issues critical to the regulation’s application. One issue ignored by the Public Notice is that while the Commission’s outdated safe harbor categories establish a range of circuit bandwidths that can be considered “identical or similar services,” the rules do not say *how* to calculate an average of the rates within those ranges.⁶ As GCI has argued, a per-Mbps comparison is the only logical way to apply Section 54.607 consistent with the basic policies of the RHC Program—but it was told by Bureau staff that rates must be compared using

⁵ *Id.* at 4.

⁶ *See* Application for Review of GCI Communication Corp. at 8-9, WC Docket No. 17-310 (filed Nov. 9, 2018) (“GCI Application for Review”); *see also* Public Notice at 4 (citing a 2003 order for the proposition that “[t]he Commission has . . . established a voluntary ‘safe harbor’ of functionally equivalent speeds that health care providers and service providers may also use to compare services”).

an average of the total circuit price notwithstanding differences in purchased capacity within the safe-harbor ranges, meaning a single T-1 and an 8 Mbps Ethernet circuit would have the same rural rate even though an HCP would have to purchase five T-1s in lieu of the 8 Mbps circuit. The Public Notice also provides no further guidance as to how to assess comparability for bandwidths above 50 Mbps, even though these bandwidths have become far more prevalent than when the safe harbor categories were adopted in 2003. Providers and HCPs cannot determine in advance whether they have comparable rates if they do not know whether or across what ranges the Bureau and USAC will permit comparison of circuits above 50 Mbps; for example, can they compare rates for 80 Mbps circuits with 100 Mbps circuits or 200 Mbps circuits?

Although the Public Notice will—as discussed above—dramatically increase reliance on cost studies, its guidance for cost studies is both incomplete and economically unsound. With respect to the former, the Public Notice lacks any guidance as to several critical specifications necessary to completing a cost study:

- Guidance as to permissible or impermissible costs.
- Any specifications or limitations as to the cost allocation methodology used. For GCI, staff insisted on non-revenue based allocation methodologies, but that is not reflected in the Public Notice. Is it a requirement?
- Specification of the permissible rate of return.

Without these specifications, which would require a rulemaking, no service provider forced to pursue a cost study would be able to compute its permissible rural rates prior to responding to requests for bids, as the Public Notice also requires.

Furthermore, the guidance the Public Notice *does* offer regarding cost study requirements is statutorily and economically indefensible. In particular, the Public Notice indicates that a service provider must allocate common costs to specific RHC customers, rather than to all

customers of a service.⁷ But that interpretation is contrary to statute, which focuses on rates charged to non-HCPs. In addition, a “fully distributed costs” allocation methodology has long been rejected by economists as having no basis in economic reality and leading to underrecovery of costs in competitive markets.⁸ The Public Notice fails to acknowledge—let alone respond to—that criticism. Yet this problem necessarily creates uncertainty and unpredictability for RHC program rates because there is *no* economically rational basis for allocating common costs to specific customers. More broadly, the Bureau’s increased reliance on cost studies in the RHC context directly contradicts both competitive bidding and—as GCI and other commenters in the Commission’s RHC rulemaking docket have explained—the Commission’s decisions relying on markets to set rates for these same services when sold to non-HCPs.

The Public Notice is also legally defective because it purports to decide novel questions of law and policy amenable to determination only by the full Commission. The Bureau overstepped its delegated authority by ruling on novel issues.

PROCEDURAL AND FACTUAL BACKGROUND

1. Related Proceedings and Filings: This Petition is one of a number of recent GCI filings addressing issues in connection with the Rural Health Care Telecommunications Program. First, in February and March of 2018, GCI filed detailed comments and reply comments⁹ in response to the Commission’s Notice of Proposed Rulemaking seeking to revise the RHC

⁷ Public Notice at 5-6.

⁸ *See, e.g.*, GCI Application for Review at 12-15.

⁹ Comments of General Communication, Inc., WC Docket No. 17-310 (filed Feb. 2, 2018) (“GCI Opening Comments”); Reply Comments of General Communication, Inc., WC Docket No. 17-310 (filed Mar. 5, 2018).

Program to better reflect current telemedicine needs and market conditions.¹⁰

On November 9, 2018, GCI filed an Application for Review¹¹ seeking review of a Bureau Decision purporting to prescribe a rate-setting methodology for services provided to rural Health Care Providers for Funding Year 2017, as well as going forward.¹² That Bureau Decision was released to the public on January 2, 2019, as an attachment to the Public Notice¹³ seeking comment on GCI's Application for Review. GCI filed a supplement to its GCI Application for Review on January 29, 2019, and Reply Comments on February 19, 2019.¹⁴

On January 30, 2019, GCI filed Additional Comments¹⁵ in response to the Commission's December 4, 2018 Public Notice¹⁶ seeking to refresh the rulemaking record regarding the determination of urban and rural rates in the RHC Program. On February 13, 2019, GCI also filed Additional Reply Comments in connection with the 2018 Public Notice.¹⁷

¹⁰ *Promoting Telehealth in Rural America*, Notice of Proposed Rulemaking and Order, FCC No. 17-164, WC Docket No. 17-310 (rel. Dec. 18, 2017) ("2017 Notice").

¹¹ *See supra* n. 6.

¹² Letter from Elizabeth Drogula, Deputy Div. Chief, Wireline Comp. Bur., to J. Nakahata & J. Bagg, Counsel for GCI (Oct. 10, 2018) ("Bureau Decision" or "Decision").

¹³ *See Wireline Competition Bureau Seeks Comment on GCI Application for Review*, Public Notice, DA No. 19-8, WC Docket No. 17-310 (rel. Jan. 2, 2019) ("AFR Public Notice").

¹⁴ Supplement to GCI Application for Review, WC Docket No. 17-310 (filed Jan. 29, 2019); Reply Comments of GCI Communication Corp., WC Docket No. 17-310 (filed Feb. 19, 2019).

¹⁵ Additional Comments of GCI Communication Corp., WC Docket No. 17-310 (filed Jan. 30, 2019) ("GCI Additional Comments"). Pursuant to the AFR Public Notice, GCI also filed its Additional Comments in support of its AFR.

¹⁶ *See Wireline Competition Bureau Seeks Additional Comment on Determining Urban and Rural Rates in the Rural Health Care Program*, Public Notice, DA No. 18-1226, WC Docket No. 17-310 (rel. Dec. 4, 2018) ("2018 Public Notice").

¹⁷ Additional Reply Comments of GCI Communication Corp., WC Docket No. 17-310 (filed Feb. 13, 2019) ("GCI Additional Reply Comments"). Pursuant to the AFR Public Notice, GCI also filed its Additional Reply Comments in support of its AFR.

2. *Factual Background:* GCI's involvement in the RHC Program is described in detail in the filings identified above, and is accordingly summarized only briefly here. The RHC Program is both critically important and extremely successful in Alaska. Alaska is geographically and demographically unique—over four times the size of California, yet with an estimated population of only about 750,000—and therefore presents unmatched impediments to the delivery and provision of quality healthcare. Many rural Alaskan communities are hundreds of miles from the nearest highway, and accessible only by airplane, boat, or snow machine. Approximately 117 villages have fewer than 100 residents.

For many of Alaska's residents, telemedicine is the only way to receive healthcare, and it is a mainstay of the state's healthcare providers. Alaska leads the way in developing innovative healthcare platforms and networks to reach rural residents, including a network of over 550 Community Health Aides/Practitioners serving more than 170 remote villages.¹⁸ These providers use telemedicine to conduct triage; to determine when a patient can be treated locally rather than being flown to Anchorage; to enable the exchange of documents and images; to conduct patient education; and to provide doctor-led treatment, including psychiatry.¹⁹

The RHC Program has been critical to the innovative growth of telemedicine in Alaska. Unsurprisingly, given its uniquely large rural area, Alaska has been a top beneficiary of RHC Program disbursements since 2002, and currently receives 25 percent of nationwide RHC Program funding. The RHC and E-Rate programs are overwhelmingly responsible for spurring rural broadband deployment in sparsely populated and remote areas of Alaska—thereby

¹⁸ *Welcome to the Alaska CHAP Program*, Alaska Community Health Aide Program (last visited Mar. 14, 2019), <http://www.akchap.org/html/home-page.html>.

¹⁹ Stewart Ferguson et al., *The Impact of Telehealth in Alaska*, Alaska Native Tribal Health Consortium at 10-11 (Dec. 10, 2009), <http://www.slideshare.net/HINZ/impact-of-telehealth-in-Alaska>.

improving both the availability of telecommunications services and the quality of life for rural residents, while dramatically reducing healthcare costs.

GCI has played a fundamental role in the growth of broadband infrastructure to meet expanding demand for services in Alaska, investing over \$3 billion over the past three decades to bring modern communications services to remote parts of the state. For example, in 2008, GCI acquired United Utilities and its western Alaska network, from which GCI built out and deployed its TERRA network—western Alaska’s *first* terrestrial middle-mile network connecting back to Anchorage and the Internet. TERRA now delivers high speed broadband services to 45,000 Alaskans in 84 rural communities across an area the size of the state of Texas.

3. The Current Public Notice: This Petition addresses the Wireline Competition Bureau’s February 15, 2019 Public Notice purporting to provide guidance regarding the Commission’s rules for determining rural rates in the RHC Program. There is substantial overlap between the issues addressed by this current Public Notice and those addressed by the Bureau Decision challenged in GCI’s Application for Review. As further discussed below, however, Bureau staff conveyed a number of instructions and determinations to GCI during the process that led to the Bureau Decision that are absent from the Public Notice. This Petition for Reconsideration seeks to identify the Commission’s public position on those issues.

ARGUMENT

I. THE BUREAU’S AND USAC’S IMPLEMENTATION OF THE CURRENT RULES IS INCONSISTENT AND OPAQUE, AND THEREFORE REQUIRES CLARIFICATION.

Comments in the rulemaking proceeding reflect broad agreement that the complexity of current Program rules and the inconsistency of their application results in delays,

unpredictability, and uncertainty for Program participants.²⁰ Indeed, SHLB stated that “the complexity and unpredictable effects” of the rules “will force rural health care providers (HCPs) currently participating in the Telecom Program to . . . leave the RHC program altogether.”²¹ Alaska Communications made a similar point, noting that “[t]he uncertainty shrouding the program diminishes the quality and quantity of care overall,” has already caused “some HCPs [to] drop[] out of the RHC program,” and has placed “the benefits to rural Americans made possible by the RHC program . . . at risk.”²²

Service providers and HCPs alike accordingly welcome guidance from the Commission clarifying the Program rules’ application. But the Public Notice fails to provide the necessary clarity.

II. THE NEW RULE INTERPRETATIONS IN THE PUBLIC NOTICE DO NOT PROVIDE THE NEEDED CLARITY AND THREATEN TO DECREASE PARTICIPATION IN THE RHC PROGRAM AND INCREASE ITS COSTS.

A. The Public Notice’s Guidance Regarding Determination of “Similar” Rates Will Result in Fewer Comparable Market-Based Rates and Increased Reliance on Cost-Based Rates.

The Public Notice’s guidance regarding the calculation of rural rates under 47 C.F.R. § 54.607 will virtually eliminate the comparables-based rate justifications of Methods 1 and 2 in

²⁰ The Schools, Health & Libraries Broadband (SHLB) Coalition addressed a number of these issues in a recent ex parte letter. *See* Letter from John Windhausen, Jr., Executive Director, to Ajit Pai, Chairman, FCC, and Radha Sekar, CEO, Universal Service Administration Company, Docket Nos. WC 17-310, CC 02-60 (filed Mar. 15, 2019) (“SHLB 3/15/19 Letter”). SHLB points out that “there are hundreds of HCPs that are still waiting to hear about their funding for FY 2018, over 8 months after the FY 2018 funding window closed,” and some “consortia applicants are still awaiting” FY 2017 decisions. *Id.* at 1.

²¹ Comments of the Schools, Health & Libraries Broadband (SHLB) Coalition at 2, WC Docket No. 17-310 (filed Jan. 30, 2019).

²² Supplemental Comments of Alaska Communications at ii, WC Docket No. 17-310 (filed Jan. 30, 2019) (“Alaska Communications Comments”).

extremely rural areas, and force service providers to seek FCC approval of rural rates through a cost study.²³ In particular, the Public Notice’s specification that rate comparisons must be for “the entire cost or charge of a service, end-to-end”—rather than for “elements of a service”²⁴—will dramatically reduce the availability of both rates “actually charge[d]” under Method 1 and “tariffed and other publicly available rates” under Method 2.²⁵ In very rural areas, including much of Alaska, direct end-to-end comparables are often unavailable, because the HCP may be the only purchaser of bandwidth at its scale in the community. Requiring that comparable *pricing* be “end-to-end” is unsupported by the precedent upon which the Public Notice relies, and inconsistent with the way that service providers actually provision an end-to-end circuit.

The Public Notice finds that “any rate used to determine a rural rate using Method 1 or 2 must be the rate actually charged to the customer . . . *for the entire service* and must appear on an invoice, contract, or other acceptable form of documentation as the entire charge for *a complete end-to-end service*.”²⁶ But the Commission order cited by the Public Notice has nothing to do with the kinds of comparables that may be used to determine a rural rate, or whether comparables for each component may be used when there are no end-to-end comparables.²⁷ Rather, the issue addressed by the portion of the *Universal Service First Report and Order* cited in the Public Notice was “whether distance-based charges could be eligible for support pursuant

²³ This impact is not theoretical—the rule interpretations announced in the Public Notice have already been applied to Alaska Communications and GCI, including in the Bureau Decision challenged in GCI’s Application for Review. The impact has, in fact, been that most rates for RHC services in Alaska require cost studies.

²⁴ Public Notice at 3-4.

²⁵ *Id.* at 3.

²⁶ *Id.* at 3-4 (emphasis added).

²⁷ See *Fed.-State Joint Bd. on Universal Serv.*, Report and Order, 12 FCC Rcd. 8776, 9127-29 ¶¶ 674-75 (1977) (“*Universal Service First Report and Order*”).

to section 254(h)(1)(A).”²⁸ In that context, the Commission’s interpretation that the rate referenced in the statute was the total end-to-end charge for the rural circuit made sense. Otherwise, “section 254(h)(1)(A) could do little to reduce the disparity between rural and urban rates,” which would undermine Congress’s “emphasi[s] [on] the importance of making telecommunications services affordable for rural health care providers.”²⁹

But it would be completely consistent with the *First Report and Order* to recognize that while the entire end-to-end circuit must be supported, in justifying whether a competitively bid rate is appropriate the carrier may consider (and the Commission will accept) evidence of market-based rates charged to non-healthcare providers for each component of the service. The fact that the end-to-end rate must be *supported* to achieve Congress’s goals does not logically limit comparables for *pricing* purposes to end-to-end circuits rather than components—particularly where no end-to-end comparables exist.

The Public Notice thus contains no legal justification for the end-to-end requirement. But even more important, the requirement is out of step with the practical reality that different elements of services are often sold in different markets, and those components thus frequently have market-based comparables even when the entire end-to-end circuit does not. In many cases, the end-to-end circuit is simply an assembly of components purchased from or provided by different carriers where each component *does* have a reliable market-based, tariffed, or publicly available rate. The Public Notice contains *no* explanation of why combining different kinds of competitively defensible rates for different elements of an end-to-end circuit would not produce a reliable rate for the entire end-to-end circuit: when all components are priced at

²⁸ *Id.* at 9127 ¶ 673.

²⁹ *Id.* at 9128 ¶ 675.

reasonable, market-based rates, the sum of the parts must also be reasonable. At a minimum, however, it is beyond dispute that combining competitively defensible component rates to produce a sum for an entire end-to-end circuit is *more* reliable than a cost study.

A simple example where the different components of a circuit have tariffed or market-based rates that would, when combined, yield a reliable end-to-end rate is when middle mile providers buy and resell channel terminations at tariffed rates, but have comparable sales of their own for the middle mile segment of the circuit. This is frequently the case in rural Alaska, which can have different ILECs providing channel terminations connected to GCI's middle mile. As a practical matter, disallowing comparability by component segments will force all of these kinds of services into a cost-based review despite market-based pricing evidence. But even such a cost-based review could not avoid using some of this same information barred under the "end-to-end" rule—GCI could, for example, submit a cost study for middle mile transport provided over its TERRA network, but could not provide a cost study for channel terminations purchased under a tariff from the ILEC. Barring comparable rates that reflect the way that circuits are provisioned in the real world—and forcing providers into the cost study method—thus simply *removes* comparable market-based rates for the middle mile while continuing to rely on the same information for the channel terminations. This makes no sense on its face—and the Public Notice offers no reasoned explanation for requiring this approach.

The Public Notice's determination that "Methods 1, 2 and 3 must be applied sequentially"³⁰—rather than combined—essentially just restates the end-to-end requirement. Even though publicly available tariffs or pricing guides might provide reliable prices for channel terminations, and a provider's own sales might do the same for the middle mile segment,

³⁰ Public Notice at 3.

requiring the justifications to be applied “sequentially” rather than combined will prevent justification in those circumstances without a burdensome and disfavored cost study.

Although the Public Notice is the first public articulation of this end-to-end/sequential requirement, staff conveyed to GCI the end-to-end limitation on comparables during its intensive review of GCI’s FY2017 rural rates.³¹ GCI has therefore had the opportunity to articulate (on the record) its concerns with this approach, and raised this issue in its Application for Review.³² The Public Notice does not acknowledge or address those concerns, and the result is a failure of reasoned decisionmaking.³³

B. The Public Notice’s Requirement that Rates Must Be Calculated Regardless of Term or Volume Discounts Will Increase the Prices Supported by the Program.

The Commission’s rules do not expressly address how to account for volume and term discounts in the context of the RHC Telecom Program. As a general matter, however, the Commission *encourages* such discounts because they reflect the lower costs of serving higher volume purchasers for longer periods of time, and thus improve consumer welfare without unreasonable discrimination.³⁴ The Public Notice, however, indicates that comparability must be determined “regardless of any term or volume discounts the customer may be receiving,”³⁵

³¹ See GCI Application for Review at 3-4.

³² See, e.g., Letter from John T. Nakahata et al., Counsel for GCI, to Elizabeth Drogula, Deputy Div. Chief, Wireline Comp. Bur., at 10-13 (May 15, 2018) (“5/15/18 GCI Letter”); Letter from Jennifer Bagg, Counsel for GCI, to USAC, Rural Health Care Program, at 8-13, 16-17 (Mar. 30, 2018) (“3/30/18 GCI Letter”); GCI Application for Review at 10.

³³ See *infra* at 22-23.

³⁴ See *Reg. of Bus. Data Servs. for Rate-of-Return Local Exch. Carriers*, Report and Order, Second Further Notice of Proposed Rulemaking and Further Notice of Proposed Rulemaking, FCC No. 18-146, WC Docket Nos. 17-144, 16-143, 05-25, ¶ 77 (rel. Oct. 24, 2018).

³⁵ Public Notice at 4.

thereby forcing carriers to absorb the burden of customers that purchase lower-capacity services for shorter terms.

GCI raised concerns on the record about this approach well before the release of the Public Notice. In its May 15, 2018 Letter to the Bureau, for example, GCI explained that “discounts are available precisely because the customer is purchasing a particular, larger amount of service,”³⁶ and that such discounts can be reasonable and nondiscriminatory because larger purchase volumes represent an important difference among otherwise similarly situated customers.³⁷ In its Application for Review, GCI criticized the Bureau Decision for “ignor[ing] . . . different overall purchase volumes” because it “requires carriers to absorb the burden of customers that purchase lower-capacity services for shorter terms,” thereby “discourag[ing] carriers from offering volume and term discounts” and “increasing the prices to be supported by USF.”³⁸ The Public Notice fails to mention these and other record objections to ignoring volume and term discounts, again violating the requirement to respond meaningfully to objections raised by a party.³⁹ GCI thus agrees with SHLB’s recent suggestion that the Commission should clarify the rules “to ensure that [they] recognize these marketplace realities.”⁴⁰

The Public Notice further requires that service providers exclude from the comparability analysis “factors such as the technology used to provide the service and network

³⁶ 5/15/18 GCI Letter at 14.

³⁷ See, e.g., *Business Data Services in an Internet Protocol Environment*, Report and Order, 32 FCC Rcd. 3459, 3540 ¶ 185 (2017) (permitting all price cap LECs in non-competitive counties to lower rates through volume and term discounts).

³⁸ GCI Application for Review at 9.

³⁹ See *infra* at 22-23.

⁴⁰ SHLB 3/15/19 Letter at 3.

configurations.”⁴¹ But such factors can be critical components of whether services are, in fact, “similar” for pricing purposes. For example, due to differences in service quality—such as greater latency and specific network characteristics that make it more difficult to ensure reliability⁴²—today’s satellite offerings may require greater bandwidth to provide service that is functionally equivalent to a terrestrial counterpart at lower bandwidth.⁴³ Again, however, the Public Notice does not acknowledge or address record objections to disregarding technological differences, in violation of the Commission’s duty of reasoned explanation.⁴⁴

C. The Public Notice Fails to Address Issues Critical to the Application of Section 54.607 that Bureau Staff Have Stated in Meetings and that Commenters Have Raised on the Record.

In addition to the flaws in the guidance that the Public Notice does offer, it fails entirely to address other important aspects of applying Section 54.607. Those matters include a number of issues initially communicated to GCI by staff, addressed at least implicitly in the Bureau Decision, and challenged in GCI’s Application for Review. Because the Public Notice is silent on these issues, the public would have no information about them at all but for the publication of the Bureau Decision and GCI’s Application for Review. Even given that publication, however, these issues remain shrouded in uncertainty because the Public Notice does not mention either the determinations made by the Bureau Decision or GCI’s challenges to them.

⁴¹ Public Notice at 4; *see also* SHLB 3/15/19 Letter at 3 (“[The PN] does not recognize the differences in technologies being used to provide . . . services.”).

⁴² 3/30/18 GCI Letter at 7.

⁴³ *Id.* Of course, regardless of such differences, to the extent both modes of transport are available in a particular location, the HCP must select the most cost-effective service for its needs.

⁴⁴ *See infra* at 22-23.

1. The Public Notice does not address whether average rates may be calculated on a per-Mbps basis.

An important issue left unaddressed by the Public Notice concerns the method of calculation of an “average” rural rate under Section 54.607. Section 54.607 provides that the “rural rate” shall be “the average of the rates actually being charged to commercial customers, other than health care providers, for identical or similar services provided by the telecommunications carrier providing the service in the rural area in which the health care provider is located.”⁴⁵ The Commission’s outdated safe harbor categories establish a range of circuit bandwidths that can be considered “identical or similar services,” but the rules do not say *how* to calculate an *average* of the rates within those ranges.⁴⁶

During the Bureau’s review of GCI’s FY2017 rates, GCI argued that a *per-Mbps* comparison is the only logical way to apply 47 C.F.R. § 54.607(a) consistent with the requirements of 47 U.S.C. § 254(h)(1)(A).⁴⁷ The Bureau Decision appeared to reject that argument (albeit without explanation), apparently endorsing staff’s statements that only an average of total charges, without regard to the service bandwidth, is permitted, even within a safe harbor range.⁴⁸ In its Application for Review of the Bureau Decision, GCI again explained why

⁴⁵ 47 C.F.R. § 54.607.

⁴⁶ *See Rural Health Care Support Mechanism*, Report and Order, Order on Reconsideration and Further Notice of Proposed Rulemaking, 18 FCC Rcd. 24,546, 24,564 ¶¶ 34-35 n.111 (2003). The FCC’s safe harbors were developed to assess the rates charged in rural areas versus the rates charged in urban areas, not to formulate the rural rate. *Id.* at 24,563 ¶ 31.

⁴⁷ *See* 5/15/18 GCI Letter at 4-10; *see also* 3/30/18 GCI Letter at 8-13.

⁴⁸ As GCI reminded the Bureau, carriers are not *required* to use the safe harbors when determining rate comparability. 3/30/18 GCI Letter at 5. By nature, safe harbors are optional methods of compliance that leave open other methods—here, other reasonable explanations of rate comparability such as GCI’s per-Mbps approach. By rejecting GCI’s methodology, the Bureau appears to be improperly applying the RHC safe harbors as if they were mandates.

an average of the total circuit charge does not make sense when circuit capacities vary. For example, calculating the rural rate through a simple average of the absolute price for a service without regard to the service bandwidth risks the absurd—and statutorily impermissible—result that a carrier could be compensated *more* than the difference between the two rates. If a carrier’s only comparable services within the 1.41-8 Mbps safe harbor range are five commercial customers with 5-Mbps Ethernet service priced at \$250, for example, calculating the rural rate as a simple average yields a price of \$250, *regardless of* the type of service a health care provider requests within that range. So if an HCP requests a 1.5-Mbps DS1 service, the rural rate forming the basis of the carrier’s compensation would be \$250, even though the cost of that lower capacity service is far less and logically should be calculated as \$75 on a per-Mbps basis (i.e., $\$250/5 \text{ Mbps} \times 1.5 \text{ Mbps}$). In this situation, a rational carrier would sell an HCP five T-1s, but not an 8 Mbps Ethernet service.

GCI has accordingly argued that “the only reading of the rules that is consistent with the statute is to average the *per-Mbps* price[s]” for “comparable services within the safe harbor category.”⁴⁹ But the Public Notice takes no position as to whether a per-Mbps comparison is permissible, and entirely disregards GCI’s arguments. Again, however, the Bureau Decision rejected GCI’s use of a per-Mbps approach in its review of GCI’s FY2017 rates—even though USAC had previously approved the methodology on multiple occasions.⁵⁰ The end result is ongoing confusion and uncertainty, which the Commission should address on reconsideration.

2. The Public Notice does not address important aspects of how cost studies should be conducted.

As discussed above, the Public Notice will greatly increase reliance on cost studies

⁴⁹ GCI Additional Comments at 20.

⁵⁰ 3/30/18 GCI Letter at 6-7.

because the interpretations it adopts make it difficult or impossible to find comparables to use for Methods 1 or 2 under Section 54.607. Unfortunately, the guidance that the Public Notice offers with respect to such studies is strikingly incomplete.

1. *Lack of Guidance as to Permissible or Impermissible Costs:* The Public Notice refers to an “itemization of the costs of providing the service” and a “breakdown” of the “company’s total common costs.”⁵¹ But the Public Notice contains no guidance regarding what “costs of providing service” or “total common costs” would be permitted.

2. *Failure to Specify the Cost Allocation Methodology to be Used:* The Public Notice recognizes that cost allocation is critical to a cost study. The Public Notice requires articulation of “how the total CAPEX/OPEX figure is allocated between customers . . . as necessary to show how the company has allocated [those] costs to its RHC Program customers.”⁵² The Public Notice similarly requires “[a]n explanation of how the company’s total common costs are allocated between customers . . . as necessary to show how the company has allocated common costs to RHC facilities and to RHC Program customers.”⁵³ The Public Notice, however, contains no guidance as to what cost allocation methodology should be used. Notably, in conversations between Bureau staff and GCI, staff has insisted on non-revenue based allocation methodologies, but that is not reflected in the Public Notice. The Bureau has also indicated that only a fully distributed cost methodology will be permitted in allocating common

⁵¹ Public Notice at 5.

⁵² *Id.* at 5.

⁵³ *Id.* at 5-6.

costs,⁵⁴ but the Public Notice again contains no mention of this requirement, or of record objections to it.⁵⁵

To the extent that the Public Notice does appear to require allocation specifically to RHC customers of a service as distinct from other customers of the same service, GCI has also made detailed record objections to the use of cost models that require allocation of common costs to RHC customers as distinct from all other customers, thus potentially leading to different rates for RHC customers as compared to other customers. “By allocating common costs of TERRA and satellite platforms to RHC customers as distinct from other customers, the Bureau Decision conflicts with the statute—as well as with 47 C.F.R. § 54.607(b)(2), which requires carriers to consider anticipated and actual demand for services ‘by all customers who will use the facilities.’”⁵⁶ Once again, the Public Notice does not address or even mention these objections.⁵⁷

3. *Failure to Identify the Permissible Rate of Return or Relevant Factors:* The Public Notice contains no guidance at all regarding the permissible rate of return—not even with respect to the general factors to be considered in arriving at that rate. Although the Bureau prescribed a rate-of-return for GCI, the Public Notice does not even mention it, let alone explain how it was determined.

In sum, although the Public Notice will require greater reliance on cost studies, there is

⁵⁴ Bureau Decision at 2.

⁵⁵ See, e.g., GCI Application for Review at 13-14.

⁵⁶ GCI Application for Review at 12-13. Notably, 47 U.S.C. § 254(h)(1) specifies that the rate at which the carrier serving the HCP is to be compensated is the rate that would be charged “for similar services provided to other customers in comparable rural areas in that State.” By requiring allocation of common costs to RHC customers as distinct from “other customers,” the Public Notice thus conflicts with the statute.

⁵⁷ See *infra* at 22-23.

simply no way that a service provider could follow the prescriptions of the Public Notice to arrive at a permissible rate under that approach, let alone do so prior to competitive bidding, which the Public Notice also requires.

D. The Public Notice’s Substitution of Cost Studies for Market-Based Comparables Is Inconsistent with the Commission’s Deregulation in Other Contexts, Is Economically Irrational, and Will Discourage Program Participation.

As set forth above, the Public Notice’s interpretations of Program Rules will, as a practical matter, make it far more difficult for providers to rely on the *best* evidence of reasonable rates—market-based comparables—and instead require them to rely on costly and error-prone cost studies. There are at least three core problems with this result, including that: 1) it is irrational to detariff and deregulate the same kinds of services in other contexts, but to impose cost-based rate regulation with respect to only RHC program participants; 2) it is flawed as a matter of economic theory; and 3) it will discourage program participation, encourage those who do participate to work around the complex and costly rules, and increase program costs.

1. Irrational to Impose Cost-Based Regulation only for RHC Participants: The Commission long ago de-tariffed non-dominant interexchange carrier rates, finding that “it is highly unlikely that interexchange carriers that lack market power could successfully charge rates, or impose terms and conditions, for interstate, domestic, interexchange services that violate Sections 201 and 202 of the Communications Act.”⁵⁸ More recently, in the *BDS Order*, the Commission stated that it would “apply ex ante rate regulation only where competition is expected to materially fail to ensure just and reasonable rates.”⁵⁹ In the most recent round of

⁵⁸ *Policy & Rules Concerning the Interstate, Interexchange Marketplace*, Second Report and Order, 11 FCC Rcd. 20,730, 20,750 ¶ 36 (1996).

⁵⁹ *Bus. Data Servs. in an Internet Protocol Env’t.*, Report and Order, 32 FCC Rcd. 3459, 3499 ¶ 86 (2017) (“*BDS Order*”).

comments in the RHC rulemaking proceeding, commenters agreed that this is not such a context, and expressed broad support for market-driven regulation of rural rates. AT&T, for example, urged the “Commission [to] refrain from imposing overly regulatory pricing requirements on service providers.”⁶⁰ GCI pointed out that “it does not make sense to apply strict regulatory rate reviews to RHC-purchased services—which are also BDS—while applying no such reviews to the same services outside of the Program.”⁶¹ This is particularly true given that the primary method of determining appropriate rates for RHC-supported services is competitive bidding, and the Section 54.607 rules are simply meant to be a “sanity check” on competitive bidding results.

2. *Flawed as a matter of Economic Theory:* In addition to conflicting with Commission precedents, the Public Notice is also flawed as a matter of basic economics. As discussed above, the Public Notice does not even attempt to specify a cost allocation methodology. But perhaps even more importantly, as the Commission has long recognized, there simply is no economically coherent way to allocate shared costs among different services provided over the same network: “[E]conomic theory does not provide any basis to determine what precise portion of common costs a particular service . . . must bear.”⁶² As a result, the cost allocation process is—as GCI has set forth in detail in previous filings⁶³—inherently arbitrary. Once again, however, the Public Notice does not confront this problem at all.

⁶⁰ Comments of AT&T at 7, WC Docket No. 17-310 (filed Jan. 30, 2019) (“AT&T Comments”).

⁶¹ GCI Additional Reply Comments at 6.

⁶² *Implementation of the Pay Tel. Reclassification & Comp. Provisions of Telecomms. Act of 1996*, Order on Remand and Notice of Proposed Rulemaking, 17 FCC Rcd. 3248, 3256 ¶ 19 (2002).

⁶³ See, e.g., GCI Opening Comments at 33; GCI Additional Comments at 25-28.

3. *Will Discourage Program Participation and Increase Costs:* As GCI and other commenters have pointed out in the rulemaking docket, the most fundamental problem with increased reliance cost-based rulemaking is that such a “complex, multilayered regulatory backstop” leads to “substantial regulatory and investment uncertainty,” thereby unsettling the RHC Program as a whole.⁶⁴ Indeed, as Alaska Communications has pointed out, “any attempt at cost-based justifications is an extremely burdensome process,” and “has to date yielded almost nothing . . . to guide future rate justifications.”⁶⁵ AT&T has similarly observed that the entire morass of cost-justification and other Program rules has become “far too complicated” for participants to reasonably follow.⁶⁶ Of course, that will also encourage service providers and HCPs to seek to work around the rules, which both increases program costs and discourages participation. Finally, these negative effects are not limited to the RHC Program itself: They harm the entire Alaska market by discouraging continued investment in Alaska networks; push carriers to consider technology choices based on funding results rather than suitability; and—due to irrational revenue and cost allocation rules—force service providers to curtail rural mass market broadband services that would otherwise utilize the same facilities.

III. THE PUBLIC NOTICE VIOLATES FUNDAMENTAL ADMINISTRATIVE LAW PRINCIPLES.

A. The Public Notice Fails to Satisfy the Reasoned Decisionmaking Requirement of the APA.

The APA requires that courts “hold unlawful and set aside agency action” that is “arbitrary, capricious, an abuse of discretion, or otherwise not in accordance with law.”⁶⁷ Under

⁶⁴ See, e.g., GCI Additional Comments at 1.

⁶⁵ Alaska Communications Comments at 3.

⁶⁶ AT&T Comments at 8.

⁶⁷ 5 U.S.C. § 706(2)(A).

this standard, an agency must engage in “reasoned decisionmaking,” which requires it to “intelligibly explain[] the reasons” for its choices.⁶⁸ Moreover, “an agency’s failure to respond meaningfully to objections raised by a party renders its decision arbitrary and capricious.”⁶⁹

As noted above, GCI and other commenters have made detailed arguments on the record in connection both with issues addressed by the Public Notice, and with issues left entirely unaddressed. But the Bureau’s six-page “guidance” document fails to acknowledge or even respond to those arguments in any meaningful way. The Public Notice accordingly fails to satisfy the reasoned decisionmaking requirement of the APA,⁷⁰ and the Commission should grant reconsideration to avoid reversal on this ground.

B. The Bureau’s Determinations in the Public Notice Exceeded Its Delegated Authority.

Section 0.291(a)(2) of the rules prohibits the Bureau from ruling on “novel questions of fact, law or policy which cannot be resolved under outstanding precedents and guidelines.” Indeed, the Commission has consistently found that Bureau actions within its delegated authority must be based on “sound interpretation” of existing “statutory provisions or regulatory policy.”⁷¹ The Commission has held, for example, that “the Bureau exceeded its delegated authority” where “there [was] no Commission precedent—one way or the other—on the appropriateness” of applying a rule “under circumstances similar” to those before it.⁷² Similarly, the Bureau

⁶⁸ *FERC v. Elec. Power Supply Ass’n*, 136 S.Ct. 760, 764-65 (2016).

⁶⁹ *PSEG Energy Res. & Trade LLC v. FERC*, 665 F.3d 203, 208 (D.C. Cir. 2011) (internal quotations and citations omitted).

⁷⁰ *See, e.g., Pub. Citizen, Inc. v. FAA*, 988 F.2d 186, 197 (D.C. Cir. 1993).

⁷¹ *TRT Telecomms. Corp.*, 77 F.C.C.2d 845, 848 ¶ 7 (1980).

⁷² *Appl. of Tully-Warwick Corp.*, 95 F.C.C.2d 1427, 1430 ¶ 5 (1983).

“erred and exceeded its delegated authority” where there was no “analogous Commission-level precedent to the facts presented.”⁷³

The Commission applied this principle in a proceeding that also involved ratemaking methodology: *Responsible Accounting Officer Letter 20* (“*RAO 20*”). There, the Common Carrier Bureau issued a letter setting forth “ratemaking instructions” for “how to account for [‘post retirement benefits other than pensions’ or ‘OPEB’] costs.”⁷⁴ While the Commission “tentatively agree[d]” with the Bureau’s treatment of OPEB costs, it nonetheless held that *RAO 20* “exceeded the Bureau’s delegated authority to the extent that it directed exclusions from and additions to the rate base for which the [existing] Part 65 rules do not specifically provide.”⁷⁵ Here, as in *RAO 20*, the Bureau’s determinations went beyond “explanation” or “interpretation” to “chang[ing] the Commission’s [applicable] rules” for determining rates.⁷⁶

Significantly, Chairman Pai has harshly criticized making such substantive decisions at the Bureau level. For example, then-Commissioner Pai joined Commissioner O’Rielly in a joint statement that specifically criticized the issuance of “two major items” by the Wireless Bureau, in lieu of action by the full Commission, as “not how democracy works.”⁷⁷ The policy issues here should likewise be addressed by the full Commission.

⁷³ *Appl. of Little Dixie Radio, Inc.*, Mem. Op. and Order, 25 FCC Rcd. 4375, 4378 ¶ 5 (2010).

⁷⁴ *Responsible Accounting Officer Letter 20*, Mem. Op. and Order and Notice of Proposed Rulemaking, 11 FCC Rcd. 2957, 2957 ¶¶ 1, 3 (1996).

⁷⁵ *Id.* at 2961–62 ¶¶ 25–29.

⁷⁶ *Id.* at 2960–61 ¶ 21.

⁷⁷ *Joint Statement of Commissioners Ajit Pai and Michael O’Rielly on the Abandonment of Consensus-Based Decision-Making at the FCC*, 2014 WL 7220034, *1 (rel. Dec. 18, 2014); see also *Basic Serv. Tier Encryption*, Report and Order, 27 FCC Rcd. 12786, 12828 (2012) (Commissioner Pai, concurring in part).

C. The Bureau Here Unlawfully Purported to Determine Multiple Novel Questions.

Here, it is unusually clear that the Bureau's Public Notice overstepped its authority and ruled on new and novel questions. The Public Notice invokes little existing Commission precedent, and the precedents on which it does rely simply do not go to the issues upon which the Bureau made novel determinations. Again, those issues include:

- Finding that separate components of an end-to-end circuit must be justified using a single methodology and, relatedly, that Methods 1, 2 and 3 of cost justification under Section 54.607 must be applied "sequentially";
- Finding that service providers must ignore volume and term discounts when determining rates for similar services; and
- Finding that service providers must exclude from comparability analysis the technology used to provide the service and different network configurations.
- Finding that costs must be allocated for services to rural HCPs as distinct from all other customers of the same service, in conflict with both 47 U.S.C. § 254(h)(1) and 47 C.F.R. § 54.607(b)(2).

These findings do not apply any existing Commission precedent, and go to fundamental policies of the Program. Such policies must be established by the full Commission, not the Bureau.

CONCLUSION

For the foregoing reasons, the Commission should grant GCI's Petition for

Reconsideration.

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March 18, 2019

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